Part 1

Section A:

Questions 1 – 20

The following statements are either true or false. Select the most appropriate answer and darken the box under A for true or B for false.

1. John is 19 years old and a full time student. He works part time during school and full time during the summer. His earnings from work for the year are $3,150 and his savings account earned $175 interest income. John is claimed as a dependent on his parents' return because they provide more than half of his support. John is not required to file a return because his gross income is not more than his standard deduction.

2. Bill and Mary are married and have no children. They were separated the last 4 months of the year. Bill's attorney filed a separate maintenance request with the court on December 31st. The judge did not sign the decree until January 2nd of the following year. Bill may not file as single for the year he and Mary separated.

3. Heather is single and lives in an apartment for which she pays all the expenses. An unrelated 6-year-old child has been living with her since May. She is raising the child as her own and receives no financial assistance. The child was not placed by an authorized adoption agency but Heather has filed for adoption although it is not yet final. Heather can claim the child as her dependent on her return.

4. Phoebe Smith, a single taxpayer, expects her adjusted gross income for 2000 to be $75,000 and her tax to be $15,850. Her withholding will be $14,000 and she does not expect to have any credits. The tax on her prior year return was $15,000. Phoebe does not need to make estimated payments.

5. When Dick and Jane married in 1988, Jane's parents loaned them $30,000 for a down payment on a house. Dick and Jane made regular payments until Jane's parents were killed in an accident in 1999. One of the terms of Jane's parents' will was that any balance remaining on the loan would be forgiven at their death and would be considered a gift. Dick and Jane must recognize income in 1999 due to the forgiveness of the debt.

6. If a capital asset is held one year or less, the gain or loss from its disposition is short term and is reported in Part 1 of Schedule D.

7. Peter bought stock on January 5, 1998. He sold the stock at a gain on January 5, 1999. Peter should report the sale as long-term capital gain.

8. XYZ Company sells office equipment in its retail store. The company needs a new delivery truck but can't afford one. Instead, the company president approaches a truck dealer with an offer to exchange office equipment from inventory, with a retail value of $35,000, for a truck valued at $30,000. The truck dealer accepts the offer. This trade is a nontaxable like-kind exchange.

9. Mack and Elizabeth had owned and lived in their home for a period of 23 months when they sold it December 15, 1999 and moved to another state to be near their grandchildren. They are not entitled to exclude any of the gain on their joint return.

10. Barnabus is a professional gambler. He travels around the country from race track to race track often taking a job at a track window to supplement his income. His family lives in Louisville, Kentucky. When he travels to Kentucky race tracks he stays with his parents. Barnabus can deduct his travel expenses, except those incurred in Kentucky, because Louisville is his tax home.

11. Phillip and Denise signed a contract with their son's dentist for braces. Jason, their son, is 9 years old and is claimed as a dependent on their return. The contract calls for a down payment in March and 24 monthly payments thereafter. They can deduct the entire amount on this year's tax return as medical expense since they are obligated for the total amount.

12. Adoptive parents who pay medical expenses of an adopted child that were incurred before the adoption may deduct those expenses in the year paid.

13. Jim and Beth live in an apartment and have purchased land where they plan to build their home. They have a mortgage on the lot and received a Form 1098 from the lender. Interest paid on this loan is deductible as home mortgage interest on Schedule A of their joint return.

14. Loan origination fees for the purchase or improvement of a principal residence, are fully deductible in the year paid if they are a specifically stated flat fee.

15. Jennifer makes weekly contributions of $25 to her church. She pays by check. Since her annual contribution to her church are more than $500, she must obtain a written acknowledgement to support her contribution deduction.

16. Martha is 17 years old, unmarried, and lives with her mother. She is not a student and works full time. Her earnings for the year are $15,000. She has a child (age 1) who lives with her. Martha's mother also worked and earned $12,000. Martha may not claim the earned income credit.

17. Samantha works as a laboratory technician in a local hospital. She is considering returning to her former occupation of bookkeeper. If she takes a computer course to refresh her skills in a specific computer bookkeeping system, she can deduct the cost of the course because she has already met the minimum requirements for the bookkeeper job.

18. Alonzo had lottery winnings during the year. He must report his winnings as income on line 21, Other Income. He may deduct the cost of lottery tickets, up to the amount of his winnings, on Schedule A. This miscellaneous itemized deduction is subject to the 2% limit.

19. Andrew, age 26, is a single taxpayer who had earned income in 1999 of $9,200. His investment income was $200. He had no other income and is not the dependent or qualifying child of another person. Andrew qualifies for the earned income credit.

20. The gross profit percentage on an installment sale is computed by dividing the total annual payments by the total profit to be collected over the life of the contract.

Turn to the next page for Part 1, Section B.

Section B:

Questions 21 – 45

The following questions are multiple choice. Select the most appropriate answer and darken the box under the corresponding letter on the answer sheet.

21. All of the following concerning extension of time to file are correct **except:**

- **A.** An automatic 4-month extension can be requested by filing Form 4868.
- **B.** If the required payment is made by credit card by the regular due date for the return, the return can be filed any time before the 4-month extension period ends.
- **C.** Requesting an automatic 4-month extension before the regular due date for the return postpones the requirement to make payment of any tax due.
- **D.** An additional 2-month extension may be requested before the automatic extension expires by writing a letter to the Internal Revenue Service.

22. Which of the following is **not** a requirement you must meet to claim head of household filing status?

- **A.** Your spouse did <u>not</u> live in your home during the last 6 months of the tax year.
- **B.** You paid more than half of the cost of keeping up your home for the entire year.
- **C.** Your home was the main home of your foster child for more than half the year.
- **D.** You are unmarried or considered unmarried on the last day of the year.

23. All the following qualify as a dependent **except:**

- **A.** Your deceased wife's stepmother who lived with you for 7 months during the tax year. She had no income and filed no tax return. You provided more than half of her total support.
- **B.** Your son who filed a joint return with his wife to receive a refund of all his withholding. No tax liability would have been due even if they had filed separate returns. All other exemption tests are met.
- **C.** Your 23 year-old daughter who is not a student and earned $3,000. She lived with you all year and you provided more than half of her total support.
- **D.** Your 17 year-old niece who is a resident of Canada but lived with you for 10 months. She earned $500 during the summer and you provided more than half of her total support.

24. Amy bought shares in the Oppenheimer Mutual Fund for $250. She received a capital gain distribution, also known as a capital gain dividend, of $90 on Form 1099-DIV for 1999. How should Amy report the capital gain dividend on her tax return?

- **A.** Need not report it.
- **B.** Reduce the basis on the stock to $160.
- **C.** Report $90 as ordinary income.
- **D.** Report the $90 as long-term capital gain.

25. Mike owns a four-family apartment building and actively participates in the rental activity. Mike advertised, rented the apartments to the tenants, collected rents, and made repairs. His brother, Bryan, also owns an apartment building. Bryan spends more than half his time developing, constructing, renting, managing, and operating his apartment building as well as providing regular cleaning, linen service and maid service for the convenience of the tenants. Which brother has self-employment income from his apartment building?

- **A.** Mike
- **B.** Bryan
- **C.** Both brothers
- **D.** Neither

26. Matt Carlsen owned an office building for investment purposes on the southside of Chicago. Matt's adjusted basis in the building was $75,000 and the fair market value (FMV) was $90,000. He exchanged his investment for other real estate held for investment with a FMV of $80,000. What is Matt's basis in the new building?

- **A.** $80,000
- **B.** $90,000
- **C.** $95,000
- **D.** $75,000

27. John and Fred owned, as joint tenants with right of survivorship, business property that they purchased for $40,000. John furnished one fourth of the purchase price and Fred furnished three fourths of the purchase price. Depreciation deductions allowed before Fred's death were $8,000. Under local law, each had a one half interest in the income from the property. At the time of Fred's death, the fair market value of the property was $80,000, three fourths of which is includable in Fred's estate. What is John's basis in the property at the date of Fred's death?

- **A.** $80,000
- **B.** $60,000
- **C.** $66,000
- **D.** $56,000

28. Sue sold land to her brother Sam for $6,000. Sue's basis in the land was $7,000. She cannot deduct the $1,000 loss. Sam sold the same land to an unrelated party for $5,500, realizing a loss of $500. What amount of loss can Sam deduct?

- **A.** $0
- **B.** $500
- **C.** $1,500
- **D.** $1,000

29. Which of the following does **not** qualify for exclusion from income of all or part of the gain from the sale of their main home in 1999?

- **A.** You sold a personal residence January 1, 1998 and excluded all the gain. You sold another personal residence December 30, 1999. You did not sell because of health problems or a change in employment.
- **B.** You owned and lived in your house from January 1, 1995 until February 15,1996 when you moved out and lived with your friend. You moved back into your house July 12, 1997 and then sold it October 20, 1999. The sale was not due to health problems or a chance of employment.

C. Betty sells her house (that she had owned and lived in since 1990) in February 1999 and gets married one month later. Her husband had excluded the gain on the sale of his residence on his 1998 return.
D. You and your wife are divorced in 1994 and your spouse is allowed to live in the house until sold. The house sells on July 15, 1999.

30. Frank files a joint return with his wife Rose. Frank incurred a loss of $125,000 on the sale of his qualifying small business stock (Sec. 1244) in 1999. How much of this loss is deductible on their joint return as an ordinary loss?
A. $125,000
B. $ 3,000
C. $100,000
D. $ 50,000

31. Kenneth's employer gives him $500 a month ($6,000 for the year) for his business expenses. Kenneth does not have to provide any proof of his expenses to his employer and he can keep any funds that he does not spend. His actual expenses for the year were $1,000 for lodging, $600 for meals while away from home, and $2,000 for entertainment. What reporting is required of Kenneth's employer and what reporting is required of Kenneth?
A. Employer adds $6,000 to wages reported on Kenneth's Form W-2; Kenneth reports $3,600 as a miscellaneous itemized deduction on Schedule A.
B. Employer adds $6,000 to wages reported on Kenneth's Form W-2; Kenneth reports $3,600 on Form 2106 Employee Business Expense.
C. Employer does not include any amount in Kenneth's Form W-2; Kenneth reports $2,400 as "Other Income" on the front of his return.
D. Employer adds $2,400 to wages reported on Kenneth's Form W-2; Kenneth takes no deductions on Form 2106 or Schedule A.

32. Which one of the following is not an adjustment to total income in arriving at adjusted gross income?
A. Interest paid on student loans
B. Portion of health insurance of self-employed persons
C. Certain contributions to a medical savings account
D. Contributions to a Roth IRA

33. John is a cash basis taxpayer. During the year he incurred the following expenses for himself and his son, Michael, whom he claims as a dependent on his return.

- $800 for braces
- $100 for babysitting so he could visit the chiropractor
- $900 for emergency room services for Michael; $875 was covered by insurance John paid the remaining $25 in the next year.

John's medical expense deduction before limitations is:
A. $800
B. $825
C. $900
D. $925

34. Which of the following will **not** usually be 100% deductible as a medical expense?

- **A.** Adding an elevator to your home to allow access to a second-floor bedroom
- **B.** Modifying the hardware on doors
- **C.** Lowering the kitchen cabinets
- **D.** Building entrance and exit ramps

35. Contributions of $250 or more can be claimed as a deduction only if you have written acknowledgement of your contribution from the qualified organization or certain payroll deduction records. The acknowledgement must contain all of the following **except:**

- **A.** The amount of cash you contributed.
- **B.** Whether the organization gave the donor any goods or services as a result of the contribution.
- **C.** A description and good faith estimate of the value of any goods or services the donor received.
- **D.** A description and good faith estimate of the value of the time and services the donor provided.

36. Frank's car was completely destroyed in an automobile accident for which Frank was at fault. He did not file a claim with his insurance company because he feared his premiums would be raised. His loss was $4,500. His policy had a $1,000 deductible. How much casualty loss can Frank claim on his return (before the deduction limits)?

- **A.** $0
- **B.** $4,500
- **C.** $3,500
- **D.** $1,000

37. Frank and Melody's home was completely destroyed by fire. They had no insurance. On which of the following forms would they report their loss?

- **A.** Form 4684, Casualties and Thefts and Form 1040, U.S. Individual Income Tax Return, as an adjustment to income.
- **B.** Schedule A, Itemized Deductions, only.
- **C.** Form 4684, Casualties and Thefts, and Schedule A, Itemized Deductions.
- **D.** Form 4684, Casualties and Thefts, only.

38. You and your son lived with your mother all year. You are 25 years old. Your only income was $9,300 from a part-time job. Your mother's adjusted gross income was $15,000. All her income was from her job. Which of the following is **not** correct?

- **A.** Your son meets the conditions to be a qualifying child for purposes of the earned income credit for both you and your mother.
- **B.** You cannot claim the earned income credit.
- **C.** You are a qualifying child for your mother.
- **D.** The person with the higher AGI may be able to claim the credit.

39. Which of the following are **not** considered earned income for the purposes of earned income credit?

- **A.** Amounts deducted from wages for insurance under a cafeteria plan.
- **B.** Disability benefits received at age 35 under a former employer's insurance plan.
- **C.** Unemployment compensation.
- **D.** Housing allowance for ministers.

40. Which of the following is **not** subject to the 2% adjusted gross income limitation on miscellaneous deductions on Schedule A?

- **A.** Home office expense.
- **B.** Federal estate taxes on income in respect of a decedent.
- **C.** Trade association dues.
- **D.** Job hunting expenses.

41. Which one of the following could prevent an individual from qualifying for the child and dependent care credit?

- **A.** Unearned income of more than $400.
- **B.** Paying for care for more than one qualifying person.
- **C.** Not identifying the care provider on the tax return.
- **D.** Paying for child care while looking for work.

42. Patsy pays Anne, an unrelated person, $100 per week to come to her home and care for her children while she works part-time. Anne requests that Patsy withhold $10 Federal income tax from each paycheck. Patsy has no other employees. She has other filing obligations such as Form W-2. Patsy must do which of the following?

- **A.** File Form 941 quarterly, reporting social security, Medicare and federal withholding.
- **B.** File Schedule H (Form 1040) quarterly, reporting social security, Medicare, and federal withholding.
- **C.** File Schedule H (Form 1040) as an attachment to her Form 1040 or Form 1040A, reporting social security and Medicare on the wages paid. File Form 940 reporting federal income tax withheld.
- **D.** File Schedule H (Form 1040) as an attachment to her Form 1040 or Form 1040A and report social security, Medicare, FUTA, and federal tax withholding.

43. Michael had to pay $4,000 alternative minimum tax last year. This year his regular income tax is $60,000 and alternative minimum tax on his income is $57,000 so he will pay only regular income tax. How much credit for prior year minimum tax can he take this year?

- **A.** $0
- **B.** $4,000
- **C.** $2,000
- **D.** $3,000

44. Which of the following statements is **not** true regarding the child tax credit for 1999?

- **A.** A qualifying child must be under age 18 at the end of 1999.
- **B.** The child tax credit is nonrefundable and reduces tax owed while the additional child tax credit is refundable and is treated as a payment on Form 1040 or 1040A.
- **C.** The child tax credit may be limited depending on modified adjusted gross income.
- **D.** The maximum child tax credit for each qualifying child is $500 in 1999.

45. Which of the following would **not** be a part of the computation of alternative minimum tax?

- **A.** Depreciation.
- **B.** Personal exemptions.
- **C.** Self-employment tax.
- **D.** Certain itemized deductions.

Part 1

Section C:

Questions 46 – 80

The following questions may require some computation. Select the most appropriate answer and darken completely the box under the corresponding letter on the answer sheet.

46. Susan, a single filer, started a home-based dress business on March 1, 2000. She was an employee and paid income taxes of $6,000 for 1999. Susan's business had net income of $0, $9,000, $11,000, and $15,000 respectively for each of the calendar quarters in 2000. Susan's total tax liability for the year was $5,500. Her first payment of estimated taxes is due:

- **A.** April 15.
- **B.** No estimates due if Susan files by Jan. 31, 2001.
- **C.** June 15.
- **D.** Susan's tax liability for 1999 exceeds 90% of her 2000 tax liability so no estimates are required to be paid.

47. Fred received the following from his employer during the year: $25,000 regular wages, $5,000 cash bonus, trip valued at $1,000, and parking valued at $100 per month at a lot adjacent to the office building. His employer contributed $200 per month to a 401(k) plan for Fred. Fred chose not to set aside any of his pay for the retirement plan. How much income should Fred report?

- **A.** $34,600
- **B.** $33,400
- **C.** $31,000
- **D.** $32,200

48. At their annual budget meeting, the Downtown Church voted to set the salary package for their pastor as follows:

Basic salary	$30,000
Housing allowance (at fair rental value)	$10,000
Maximum reimbursement for travel	$ 5,000
(reports must be filed with receipts attached)	

How much of the salary package is includible in the pastor’s taxable income?

- **A.** $30,000
- **B.** $35,000
- **C.** $40,000
- **D.** $45,000

49. Janice dropped off her annual records for preparation of her tax return. Determine the amount of taxable interest to be reported on Janice's 1999 return.

- $1,000 interest earned on her 16-year-old son's savings account (he had no other income and did not file a tax return).
- $50 interest income reported on Form 1099-OID.
- $200 interest earned on a certificate of deposit (your client borrowed the entire $3,000 to purchase this CD).
- $20 value of a calculator that was a gift from the bank for opening a savings account.
- $6,000 received on a prior year installment sale, of which $4,000 is interest and $2,000 is principal.

A. $4,250
B. $7,270
C. $5,250
D. $4,270

50. Geraldine works for a corporation with a dividend reinvestment plan. In lieu of dividends, Geraldine, who currently owns 1500 shares of stock, bought 100 additional shares of stock at $2 a share and paid a service charge of $4.75. The FMV of the stock was $12. The service charge was deducted from the dividends prior to the purchase of the stock. What must she report on her tax return as dividend income?

A. $200
B. $1,200
C. $1,204.75
D. $1,195.25

51. Karen Smith bought Coca-Cola stock for $475 on March 31, 1999. On November 15, 1999, Karen received a non-taxable distribution of $155 on the 50 shares of stock she owned. She sold the stock for $300 on December 22, 1999. What is her gain or loss on the sale?

A. $175 gain
B. $175 loss
C. $20 gain
D. $20 loss

52. In 1999, Jerry signed a 5-year lease to rent space to the MacBee restaurant. That year, MacBee paid Jerry $24,000 for the first year's rent and $24,000 for the last year's rent. Jerry reports his income using the accrual method of accounting. How much of the $48,000 is included in Jerry's 1999 income?

A. $ 24,000
B. $120,000
C. $ 48,000
D. $ -0-

53. In 1999, Todd owned a waterfront vacation home that he used from January 1st to February 28th. The rest of the year he rented the vacation home for $1,000 per month, at fair rental price. Mortgage interest for the year was $15,000 and repairs were $1,500. Depreciation was $150 for the rental period. What is the amount that is carried over to 2000 as unused rental expenses?

A. $3,350
B. $ 150
C. $1,200
D. $1,350

54. Bill took out a $100,000 non-recourse loan and bought an apartment building. The building is not security for the loan. Bill spent $25,000 of his own money on repairs before he rented the apartment building to the public. Bill is single, works full-time and earns $80,000 per year. Bill's loss from the rental real estate activity, in which he actively participates, is $30,000. He has no passive income. For what amount is Bill at-risk and how much of Bill's passive loss from his rental activity is deductible?

At-Risk	Passive Loss
A. $100,000	$25,000
B. $ 25,000	$25,000
C. $125,000	$30,000
D. $125,000	$25,000

55. Charles, the landlord, made several repairs and improvements to his rental house. He spent $1,500 to add carpeting in the hallway, $550 for a stove, and $750 for a refrigerator, $170 to replace the broken faucet in the bathroom, and $590 to replace damaged shingles on the roof. How much of these costs must he depreciate?

A. $3,560
B. $2,800
C. $1,300
D. $3,390

56. Sam, a degree candidate at OSU, had education-related expenses and received financial assistance as follows:

Tuition	$3,000
School fees	$ 300
Books and supplies	$ 900
Room and board	$3,500
Academic scholarship	$2,500
VA subsistence payments	$1,000
Scholarship from a civic organization	$2,500

How much income, if any, must Sam report?

A. $5,000
B. $ -0-
C. $4,200
D. $ 800

57. George retired in July of 1999 and received a taxable pension of $10,000 and social security benefits of $5,000. He received $2,000 in unemployment for January and February of 1999. George is single. Assuming George has no other income or deductions, what is George's adjusted gross income for 1999?

A. $17,000
B. $12,000
C. $12,500
D. $14,500

58. Gene Wingo had the following potentially taxable transactions in 1999. How much, if any, should be included on his 1999 return?

- $200 credited to his savings account on 12-31-99. He did not withdraw any money from the account during the entire year.
- $2,000 withheld from his paycheck by his employer to satisfy a garnishment by his doctor.
- $1,000 discount given by his bank when he paid off his home mortgage five years early.
- $500 check received 12-31-99 from an individual for one of Gene's original drawings. Gene didn't cash or deposit the check until the next year.

A. $1,700
B. $2,700
C. $3,700
D. $3,200

59. Tony purchased a truck to be used in his excavation business. The truck's cost was $22,000. In addition, Tony paid sales tax of $1,100 and $900 freight to have the truck delivered immediately from another dealer. What is the depreciable basis of the truck?

A. $22,000
B. $23,100
C. $24,000
D. $22,900

60. Bill, a tax preparer, agreed to prepare the corporate tax return for the EZ Interior Decorating Co. It was agreed that Bill's fee would be $4,500. EZ was experiencing cash flow problems and offered Bill a computer with a fair market value (FMV) of $3,500, a printer valued at $400, and a monitor worth $250 instead of the agreed upon $4,500. EZ had paid $6,000 for these items. Bill accepted the equipment in lieu of cash. What is Bill's basis in the property received?

A. $0
B. $4,150
C. $6,000
D. $4,500

61. Joe exchanged his pick-up truck with an adjusted basis of $8,000 for a new truck with a fair market value (FMV) of $7,000 and $2,000 cash. Both trucks are used in his business. What gain, if any, must Joe recognize and what is his basis in the new truck?

- **A.** $0 gain; basis $7,000
- **B.** $1,000 gain; basis $8,000
- **C.** $1,000 gain; basis $9,000
- **D.** $1,000 gain; basis $7,000

62. Jane acquired an acre of land as a gift. At the time of the gift, the acre had a fair market value (FMV) of $20,000. The donor's adjusted basis in the land was $15,000. No gift tax was paid on the gift. No events occurred to increase or decrease her basis in the property. Jane later sold the acre for $10,000. What is Jane's gain or loss on the sale?

- **A.** $ 5,000 loss.
- **B.** $10,000 loss.
- **C.** $ -0- no gain or loss
- **D.** $10,000 gain

63. In 1999, your father gave you a gift of property with a fair market value (FMV) of $75,000. His adjusted basis was $50,000. The gift tax paid was $10,000. What is your basis in the property?

- **A.** $60,000
- **B.** $75,000
- **C.** $50,000
- **D.** $53,850

64. In 1997, Sam bought 200 shares of stock at $9 per share for a total cost of $1,800. In 1998, he bought 300 shares at $12 per share for a total of $3,600. In 1999, the stock split 3 for 1. What is the basis per share in the stock after the split?

- **A.** 200 shares at $9 and 300 shares at $12.
- **B.** 600 shares at $3 and 900 shares at $4.
- **C.** 200 shares at $3 and 300 shares at $4.
- **D.** 600 shares at $9 and 900 shares at $12.

65. Alex bought four shares of common stock for $200. Later the corporation distributed a share of preferred stock for every two shares of common. At the date of distribution, the common stock had a FMV of $60 and preferred stock had a FMV of $40. What is Alex's basis in the common stock and the preferred stock after the nontaxable stock dividend?

- **A.** $200 common; $80 preferred.
- **B.** $150 common; $50 preferred.
- **C.** $ 60 common; $40 preferred.
- **D.** $240 common; $80 preferred.

66. Mark sold a building for $100,000 cash plus property with a fair market value (FMV) of $10,000. He had purchased the building in 1997 for $85,000. He made $30,000 worth of improvements and deducted $25,000 for depreciation. The buyer assumed Mark's real estate taxes of $12,000 and mortgage of $20,000 on the building. What is the amount realized on the sale of the building?

- **A.** $110,000
- **B.** $142,000
- **C.** $130,000
- **D.** $145,500

67. Mark sold a building for $100,000 cash plus property with a fair market value (FMV) of $10,000. He had purchased the building in 1997 for $85,000. He made $30,000 worth of improvements and deducted $25,000 for depreciation. The buyer assumed Mark's real estate taxes of $12,000 and mortgage of $20,000 on the building. Mark paid selling expenses of $3,500. What amount of gain should be recognized on the sale of the building?

- **A.** $16,500
- **B.** $36,500
- **C.** $52,000
- **D.** $48,500

68. Geena paid $10,000 for stock in a start-up company. A few months after she bought it, she sold the stock to her brother, Henry, for $8,000, its current value. Later, he sold the stock to an unrelated party for $15,000. What gain or loss should Geena and Henry recognize on their tax returns in the year of sale?

- **A.** Geena recognizes $2,000 loss; Henry recognizes $7,000 gain.
- **B.** Geena recognizes $2,000 loss; Henry recognizes $5,000 gain.
- **C.** Geena recognizes $0 loss; Henry recognizes $7,000 gain.
- **D.** Geena recognizes $0 loss; Henry recognizes $5,000 gain.

69. How should an individual report the following transactions on a 1999 return?

Total short-term capital losses	$ 6,000
Total short-term capital gains	$15,000
Total long-term capital losses	$10,000
Total long-term capital gains	$10,000

- **A.** $25,000 net capital gain.
- **B.** $ 0 net capital gain.
- **C.** $ 9,000 net capital gain.
- **D.** $ 22,000 net capital gain.

70. James and Annie Bourke sold stock in 1999. The sale resulted in a short-term capital loss of $4,000. The Bourkes had no other capital transactions during the year. Their taxable income was $10,000. How much of the capital loss is deductible on their 1999 joint return and how much must be carried over to the next year?

- **A.** $4,000 loss; $0 carryover.
- **B.** $3,000 loss; $0 carryover.
- **C.** $3,000 loss; $1,000 carryover.
- **D.** $0 loss; $4,000 carryover.

71. Monte operates a landscaping business. He drives a pick-up to various work sites and to get materials. His employees use two other pick-ups plus a truck to deliver materials and to travel to work sites. His mileage on the four vehicles for the year totaled 200,000 miles, 60,000 miles on each of the three pick-ups and 20,000 miles on the truck. The mileage is incurred ratably throughout the year and is supported by mileage logs. The actual expense of operating all four vehicles was $40,000 for fuel, repairs, etc. He also spent $600 on tolls. During the year, Monte paid $4,000 in interest on vehicle loans. All four vehicles are parked at the business site when not in use in the business. They are not available for personal use. Ignoring any possible depreciation deduction, how much of Monte's vehicle-related expense is currently deductible?

A. $62,750
B. $62,000
C. $44,600
D. $63,350

72. Rex is a construction contractor and bids on jobs in a three state area. During the year, he paid $20,000 in entertainment expenses. Assuming either the "directly-related test" or the "associated test" are met, how much of the following expenditures are deductible as entertainment expense?

- $1,200 annual dues to a country club where he entertains customers with meals and golf.
- $4,000 cost of a duck hunting trip for himself and contracting officers from three of his largest clients.
- $1,000 paid for tickets for a client to attend a play-off game when the face value of the tickets was $800.
- $9,000 spent to entertain customers while traveling away from home on business.
- $4,800 spent to entertain customers in local restaurants.

A. $ 9,400
B. $ 9,300
C. $10,000
D. $18,600

73. Pat had the following moving expenses:

- Cost of packing and crating and transporting her household goods $1,200;
- Lodging for travel between her old home and her new home $550;
- Meals during the trip $150;
- $250 to break the lease on her old home;

Pat moved to start a new job and met the distance and time tests. What are the total moving expenses that can be deducted from total income to arrive at adjusted gross income?

A. $2,150
B. $1,900
C. $1,750
D. $2,000

74. Todd and Susan divorced on September 1, 1999. As part of the divorce decree, beginning in September, Todd was to make payments of $2,000 a month for the balance of the year to Susan's doctor for recent medical expenses; child support payments of $500 per month, and $1,500 a month for the mortgage payment on a jointly-owned home. Susan and the children will continue to live in the home. What is the amount that Todd can deduct as alimony for 1999?

A. $16,000
B. $11,000
C. $ 4,200
D. $ 9,600

75. Lonnie and Judy Landers bought a home July 1, 1999. Real estate taxes are assessed in their state on April 1, 1999 for property owned in 1998. The 1998 tax is due October. 1, 1999. When the Landers bought the house they agreed to pay all taxes due after the date of purchase. Taxes of $1,200 for 1998 were due October. 1, 1999 and the Landers paid this amount October. 1, 1999. In 2000, the Landers received a property tax bill for $1,500 for 1999. Payment is due October. 1, 2000. What amount can the Landers deduct on their 1999 return as real property tax?

A. $1,200
B. $ 600
C. $ 750
D. $ 0

76. How much of the following interest expense is deductible on Schedule A, before limitations? The taxpayer is reporting $1,500 in investment income.

- $1,200 interest paid on a loan used to purchase a vacant lot held for investment.
- $ 750 interest paid on a qualifying student loan.
- $2,700 credit card interest on an advance used to make a down payment on a new home.
- $ 625 interest on a loan used to invest in tax-free bonds.

A. $1,200
B. $1,950
C. $4,650
D. $3,900

77. Jerry's adjusted gross income for 1999 is $40,000. How much of the following contributions (after limitations, if any) can he deduct on Schedule A for 1999?

- $1,000 paid at a charity auction for a week at a fishing resort in Arkansas. The trip is valued at $1,000.
- $500 to the local Chamber of Commerce.
- Land adjacent to his church for use as a parking lot. The fair market value of the land is $35,000. Jerry paid $20,000 for the land. He doesn't elect to reduce the fair market value to qualify for a different AGI limit.

A. $20,000
B. $12,000
C. $10,500
D. $ 8,000

78. Jane bought an old mountain cabin as a second home and began to remodel it. Immediately after she had removed the old appliances and cleaned the cabin, a fire destroyed it. The cost of the cabin was $100,000 (including $10,000 for the land). The fair market value (FMV) of the property before the fire was $120,000 ($105,000 for the building and $15,000 for the land). After the fire, the FMV was $15,000 (value of the land). Jane collected $85,000 from her insurance company. Her casualty loss (before applying the $100 and 10% limits) is:

A. $0
B. $20,000
C. $5,000
D. $15,000

79. Ed and Sue both work and their daughter attends day care. The cost of day care is $250 per month. Ed's earned income for the year was $10,000; Sue's earned income was $40,000. They had no other income or adjustments. What amount of child care credit can they claim for 1999?

A. $480
B. $600
C. $720
D. $900

80. In 1990, Sally sold a personal residence on the installment method. She needed cash in 1999 so she sold the note for $7,500 when the balance due her was $9,000. Her gross profit percentage was 47.5%. How much profit must Sally report on the disposition of the obligation?

A. $2,775
B. $7,500
C. $0
D. $3,225

End of Part 1.